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Foreign Economic Trends and Their Implications for the United States

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DENMARK

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DENMARK KEY ECONOMIC INDICATORS

In millions of U.S. dollars unless otherwise stated. (DKK 6.20 = US$1.00)--see note (A). n.a. = not applicable; p = projected.

	1988	1989	% Change	1990p
NATIONAL INCOME ACCOUNTS				
GDP (current prices)	118,633	125,164	5.5	128,900
GDP (constant 1988 prices)	118,633	119,740	1.2	120,000
Per Capita GDP (current $)	23,131	24,389	5.4	25,112
Central Govt. Budget, Surplus	-2,176	-3,016	n.a.	-3,258
-- as percent of GDP	-1.8	-2.4	n.a.	-2.5
Fixed Investment, current prices	21,468	22,435	4.5	23,185
Personal Savings (percent of disposable income)	0.1	2.2	n.a.	2.0
PRODUCTION AND EMPLOYMENT				
Labor Force (1,000s)	2,839	2,846	0.2	2,853
Unemployment Rate (percent)	8.5	9.3	n.a.	9.8
Industrial Sales Volume (1985=100)	106	109	2.8	110
Hours worked in Mfg.(1985=100)	93.1	92.5	-0.6	91.4
WAGES AND PRICES				
Hrly. Wage Rate in Mfg.(1985=100)	122.1	128.1	4.9	136.0
Wholesale Prices (1985=100)	96.7	102.3	5.8	104.0
Consumer Prices (1985=100)	112.7	118.1	4.8	121.5
MONEY AND FINANCE				
Money Supply (M1) average	38,734	40,500	4.6	42,350
Money Supply (M2) average	55,527	58,268	4.9	64,000
Bond Rate (percent average)	9.8	0.8	n.a.	11.0
Commercial Lending Rate (% av.)	13.4	13.4	n.a.	14.8
BALANCE OF PAYMENTS AND TRADE				
Foreign Exchange Reserves,Yr.-End	11,658	7,835	-32.8	10,500
Total Foreign Debt (% of GDP)	40.9	38.5	n.a.	37.0
Govt. Foreign Debt, Yr.-End	20,048	18,710	-6,7	21,000
Govt. Foreign Debt Service	3,452	2,887	-16.4	2,600
Current Balance of Payments (B)	-1,920	-1,664	n.a.	650
-Trade Balance, Goods & Services	2,973	3,838	n.a.	6,270
-Net Payments from the EC	479	342	n.a.	380
-Debt Interest Payments (net)	-4,648	-5,333	n.a.	-5,400
-Net Transfers, incl. Foreign Aid	-724	-511	n.a.	-600
Commodity Exports (f.o.b.)	29,422	33,146	12.7	35,000
U.S. Share	1,721	1,852	7.6	1,700
Commodity Imports (c.i.f.)	28,134	31,505	12.0	31,000
U.S. Share (C)	1,689	2,172	28.6	1,800

(A) Above statistics, originally expressed in kroner, converted at projected average 1990 exchange rate to preserve year-to-year comparability. Average exchange rate (DKK per $1): 1988, 6.73; 1989, 7.31; 1990p, 6.20.

(B) Figures for 1988 and 1989 preliminary; announced revisions have not yet been released.

(C) Main imports of U.S.-origin products (Jan.-Sept.1990): Machinery & equip., incl. parts, 444 (of which computers, 181); civil aircraft & parts, 194; coal/pet coke, 115; instruments & optical articles, 74; military equip., 72; chemicals, 72; tobacco, 32; plywood, 27; fruits & vegetables, 21; and feedstuffs, 13.

SUMMARY*

The hopes of Danish officials that 1990 would bring increased growth in the Danish economy were quickly extinguished. Real gross domestic product (GDP) dropped in the first half of the year 0.3 percent compared with the same period in 1989, and growth for the full year is estimated at less than 1 percent. The central government's budget deficit in 1990 is expected to continue in 1991. However, the balance of payments (BOP) has been improving impressively, and the current account was in surplus in 1990 for the first time since 1963.

Denmark has committed itself totally to the establishment of an economic and monetary union within the European Community (EC). Many members of the Danish Parliament want the European Monetary Union (EMU) implemented quickly. Danish industries seem well prepared for the EC Single Market by 1992, which should also offer increased opportunities for exploitation of the Danish market by U.S. companies.

Denmark fully supports the reform process in Eastern and Central Europe and is actively pursuing new export markets there. It will take some time, however, before Denmark will reap any significant economic benefits.

Negotiations between the government and the opposition Social Democratic Party (SDP) over the central government's 1991 budget and a possible reduction in marginal income taxes broke down in November. In response, Prime Minister Schlueter called an election for December 12, 1990, in which the SDP sharply increased its number of seats in Parliament. However, the six non-socialist parties maintained a fragile majority, and the Prime Minister organized a minority government based on the participation of only two of those parties.

Danish sanctions against Iraq are effectively enforced and their direct implications for Danish trade do not present any major problems. However, oil price increases as a consequence of the Gulf crisis may jeopardize the present favorable trend in the Danish trade balance.

The volume of U.S. sales to Denmark is growing slightly, indicating U.S. exporters are taking advantage of the improved competitive position resulting from the fall in the dollar and the increase in Danish investment in equipment. Prospects are good for a continued increase in U.S. sales in 1991. With a market as diversified and competitive as Denmark's, U.S. products sold in Denmark compete on terms similar to those prevailing at home.

*This report was prepared in December 1990.

CURRENT ECONOMIC SITUATION AND TRENDS

Danish Economy Stagnant: Following 2 years of economic recession with only marginal increases in real GDP, the Danish economy benefitted from an export-led improvement in 1989, as GDP rose by 1.2 percent. However, government's hope that this marked the beginning of an upswing in economic activity was quickly extinguished. Despite a continued increase of close to 6 percent in exports and a moderate increase in private consumption, GDP for the first 6 months of 1990 dropped 0.3 percent compared with the same period in 1989. This drop was due to significant reductions inventories and a small drop in gross investments. The increase in private consumption did not boost domestic activity, as imports of consumer goods increased at an even faster rate. This development confirmed fears that the repeal of the consumer loan tax last January would lead to increased imports. The argument has important ramifications for current plans for reductions in the personal tax rates. The investment drop was especially marked in the building sector, off by more than 10 percent. Investment in infrastructure increased more than 3 percent, and investment in equipment increased by 13 percent.

Despite the poor results for the first half of 1990, most econometric models still project a GDP increase for the year of close to 1 percent. However, estimates are continuously being adjusted downwards, and there is a serious risk that 1990 may end up as a no-growth year.

Balance of Payments Shows Positive Development: Figures for the first three quarters of 1990 showed a surplus on the balance of payments (BOP) of 5.9 billion kroner ($932 million), an improvement of 10 billion kroner ($1.6 billion) over the same period last year. This improvement is the result of a sharply increased surplus on the trade account, which now more than offsets the huge interest payments on Denmark's foreign debt. The trade surplus equals more than 3 percent of GDP, one of the highest ratios in the world. As a result, the BOP for 1990 will show a surplus, the first since 1963. Revisions in the accounts for previous periods transformed a deficit for the first half of 1990 of 1.6 billion kroner ($248 million) into a surplus of 1.4 billion kroner ($217 million). The BOP deficit for 1988 was reduced from 11.9 billion kroner ($1.8 billion) to 8.4 billion kroner ($1.2 billion), and the 1989 deficit from 10.2 billion kroner ($1.4 billion) to 6.5 billion kroner ($889 million). (Note: As details of the revised figures had not yet been published at the time this report was prepared, the 1988 and 1989 BOP figures in the Key Economic Indicators show the old figures.)

Denmark's foreign trade is concentrated with the EC and EFTA countries, which account for more than three quarters of the total. Denmark's trade with the EC recorded a surplus in the first 9 months of 1990 of 7.4 billion kroner ($1.2 billion), due primarily to a large surplus in trade with the United Kingdom. Trade with the EFTA countries resulted in a surplus of 5.9 billion kroner ($932 million). Danish trade with the United States in January-September 1990 was almost in balance, compared with a Danish deficit of almost 2 billion kroner ($274 million) in 1989.

The positive development on the trade account is to a large extent the result of a significant improvement in the terms of trade, accounting for almost half of the 10 billion kroner ($1.6 billion) improvement. In the first three quarters of 1990, import prices dropped more than 3.2 percent, thus almost nullifying the 3.9 percent volume increase for the same period. Export prices were stable compared with last year, allowing the 2.7 percent volume increase to be totally reflected in the BOP.

However, the price of the BOP surplus has been high. The Danish economy has been close to a standstill over the last 5 years, and unemployment has grown to 10 percent. Some government planners warn that the BOP will drop back into deficit if the economy should start to expand again--though there does not seem to be much impetus for such an expansion.

Exchange Rate Developments: Denmark is a member of the European Monetary System (EMS), which has helped the government block proposals to solve Denmark's economic problems through exchange rate adjustments, i.e., a devaluation. In September 1990 the trade-weighted krone rate was 7 percent higher than in September 1989, and foreign exchange reserves were 65 million kroner ($10 million). In the same period, the value of the krone rose about 20 percent against the U.S. dollar. Many Danish exporters fear that the strong krone may adversely affect the recent improvement in Denmark's competitive position in international trade.

Denmark and the European Communities: During almost 18 years of EC membership, Denmark tried to limit the role of the EC to one of solely economic cooperation. However, it is now a committed supporter of the creation of a European Monetary and Economic Union, which it would like to see implemented soon. The government and the opposition Social Democratic Party (SDP) agreed in October 1990 on a Danish position on future European economic and monetary cooperation. In a recent memorandum to

all EC members, Denmark argued that the establishment of the EMU is a natural continuation of the single market and will provide further growth and employment in all member states. To reap the full benefits, Denmark proposed early implementation, acknowledging some transitional measures may be needed.

The memorandum also calls for the establishment of a European System of Central Banks (ESCB) with responsibility for monetary and exchange rate policy in the Community. (This system would ensure price stability, but concern must also be shown for the achievement of full employment.) Member states would retain full control of their national budgets, although the memorandum proposes that certain procedures be established which would make it possible to put pressure on a member state pursuing a fiscal and budgetary policy which contradicts the EMU's goals. Finally, the memorandum calls for the EC to conduct an economic policy which is environmentally sustainable.

Denmark and the New Europe: Denmark is a strong supporter of bringing the European countries closer together. Besides welcoming an expansion of the EC with the present EFTA countries (Austria, Finland, Iceland, Norway, Sweden, and Switzerland), Denmark strongly supports the reform process in Eastern Europe. Although the importance of Eastern European countries to the Danish economy has been rather limited (Danish trade with them accounts for less than 3 percent of its total trade), the Danish Government takes a strong interest in supporting economic development in those countries. Bilaterally, Denmark has implemented a number of programs concentrated in financial support for joint ventures, and energy, telecommunication, and environmental projects, for which foreign companies in Denmark are also eligible. Multilaterally, Denmark participates in Nordic, EC, and other international support programs for the newly emerging democracies and has joined the new European Bank for Reconstruction and Development. Despite these efforts, it is likely to take years for Denmark to reap any significant economic benefits from the reform process. One exception may be the case of the unified Germany, due to the large financial integration assistance provided by the former West Germany.

Central Government Budget Continues in Deficit: When the center-right coalition government headed by Prime Minister Schlüter took office in 1982, one of its primary goals was to eliminate the growth in public spending and wipe out the huge central government budget deficit, which then amounted to about 10 percent of GDP. In spite of government efforts to achieve this goal, public spending has continued to grow. Only once, in 1987, was the government able to deliver on its pledge to

to reduce public spending. It has, however, managed to reduce the rate of growth in expenditures and to significantly reduce the size of the annual deficit. In both 1989 and 1990, the deficit was about 2.5 percent of GDP, or 20 billion kroner ($2.7 billion). For 1991, however, it is projected to jump to 3.5 percent of GDP, about 30 billion kroner ($5 billion) as compulsory expenditures on social programs continue to grow and tax revenues remain stagnant. At the end of 1990, the central government's total debt is projected to be 487 billion kroner ($81 billion), of which 27 percent will have been borrowed abroad.

Reductions in Marginal Income Tax: As part of the 1991 budget package, the government has proposed the elimination of the middle bracket in the current three-bracket graduated income tax system. This measure would reduce the tax burden for middle and upper incomes by 6 percent. The reduction is not dramatic, but the government believes it could bring growth to the economy.

However, because he heads a minority government and wants to have broad support for his budget, Prime Minister Schlueter sought approval of the package from his major opposition, the Social Democrats. Negotiations between the parties broke down in November. In response, the Prime Minister called an early election for December 12, 1990. The election resulted in the SDP winning 69 seats (up 14 from the last election), and it is thus by far the largest party. However, the six non-socialist parties can still muster a small and highly fragile majority. Whether they can also muster the necessary unity to keep in power the new two-party (Conservative and Liberal) government which emerged from the elections remains to be seen.

Unemployment Surges: Unemployment continues to increase and has now reached its highest level since 1983. In September 1990, 275,500 persons, 9.8 percent of the work force, were unemployed. The huge unemployment is a sign of the standstill of the Danish economy, but it also causes trouble for the central government's budget, since an increase in the number of unemployed means an increase in government spending for unemployment benefit payments. Since 1988, the workweek has been reduced from 40 hours to 37 hours. The government hoped the shorter workweek would bring more people into work. However, the only consequence so far of the reduction seems to be that those already employed have to work harder.

No Agreement on Labor Market Reforms: In August 1990 the government launched the so-called four parties negotiations, an attempt to reach a broad agreement on what it believes are necessary labor market reforms. Among the subjects for reform were the unemployment benefit system, improved vocational training possibilities, and job or apprenticeship guarantees for young people. Participants were the central government, the Small Municipalities' Association, the Federation of Danish Trade Unions (LO), and the Danish Employers' Association (DA). The government hoped that an agreement could be presented to Parliament for consideration and approval. However, when the negotiations ended in late October the parties, while agreeing in principle on many of the aims of the reforms, strongly disagreed over their financing, and no proposal was forthcoming.

Denmark and the Gulf Crisis: Following Iraq's invasion of Kuwait, Denmark implemented the U.N. trade embargo against Iraq and Kuwait in keeping with the joint position of the EC. August trade statistics indicate that the Danish sanctions are effective. Danish exports to Iraq and Kuwait in 1989 amounted to well over 1 billion kroner ($137 million), largely agricultural products. Imports from Kuwait had a value of more than 3 billion kroner ($411 million), almost entirely crude oil. Imports from Iraq were insignificant.

Denmark has not been severely affected by oil price increases in the wake of the crisis because of its high degree of self-sufficiency in oil and gas, which is now close to 85 percent and is expected to reach 100 percent in 1992. The Danish North Sea production in 1990 will come close to 8.5 million ton oil equivalents comprised of 6 million tons of crude oil and 2.8 billion cubic meters of natural gas. Furthermore, the high Danish energy taxes constitute a fixed element in the market price, reducing the relative effect of the price increase.

The Ministry of Economic Affairs estimates that an increase of $10 per barrel will reduce Danish GDP by 0.4 percent, domestic demand by 0.6 percent, and exports by 0.4 percent. Unemployment will increase by some 5,000 persons and consumer prices by 1 percent.

IMPLICATIONS FOR THE UNITED STATES

Denmark and the EC Single Market: Danish industries, due to their traditionally large exports, seem well prepared to meet the competitive challenges of the EC's Single Market. As a possible gateway to the large Single Market, Denmark's stable, productive, and well-educated labor force is an important

factor for foreign companies considering establishing a base in the EC. On the other hand, Denmark's location in the outskirts of the EC, its high personal income taxes, its high wages, and lack of favorable investment incentives remain major obstacles to new foreign direct investment, except perhaps in certain high-value adding and capital-intensive industries. Further, although the government has taken the first steps towards a harmonization of Danish excise taxes with the lower rates elsewhere in the EC, particularly for a number of products traded across the Danish-German border, it will take considerable time beyond 1993 before harmonization in the entire excise tax area, including the value-added tax, is eventually attained.

While U.S. direct investment in other EC countries has increased sharply in recent years, direct investment in Denmark has been stagnant, with inflows averaging 500 million kroner ($70-80 million) annually almost being offset by outflows. U.S. direct investment in Denmark has remained basically unchanged at about $1 billion during the last decade. The withdrawal of large investments by U.S. oil companies in the mid-1980s has been offset by new investments, particularly in the financial sector and in computer hardware and software distribution. These new investments, however, have entirely been via expansion of present activities or via acquisition of already well-established and competitive Danish companies.

Stable or Upward Trend in U.S. Sales to Denmark: The trade statistics for the first 9 months of 1990 show an almost 20 percent decline in Danish imports of U.S.-origin products, from 9.8 billion kroner ($1.3 billion) in 1989 to 7.9 billion kroner ($1.2 billion) in 1990. However, in current dollar values the decline was less than 6 percent, due to the drop in the krone-dollar exchange rate of 15 percent in that period. Furthermore, this decline in trade value was entirely the result of a sharp drop in Danish imports of U.S. aircraft of more than 1 billion kroner ($15 million). Thus, the dollar value of U.S. sales of other goods to Denmark in the January-September period in fact rose more than 5 percent, indicating an increase in the volume of U.S. sales. Indications are that the present low value of the dollar, and hence improved competitive U.S. position, will assist a further increase in U.S. sales in 1991.

EC Single Market Offers Improved Prospects for U.S. Sales: The eventual harmonization within the EC of industrial standards and the opening of hitherto closed public procurement sectors--telecommunications, water, energy, and land transport service--seem to offer good prospects for an increased U.S.

penetration of the Danish and EC markets. Sales of telecommunications equipment and some services are now fully liberalized in Denmark, provided the equipment has been approved in advance by the Danish authorities. In addition, the present mobile telephone network monopoly will be opened up to competition. In November 1990 the government approved the establishment in Denmark of a competitive operator to the majority government-owned TeleDanmark A/S in the European-wide General System Mobile (GSM) mobile telephone system. This system will come in operation by March 1, 1992. Several large U.S. telecommunications operators have shown an interest in participating. The private operator will be selected through public bidding.

U.S. Sales of Transport and Other Capital Equipment: The most important single product in U.S. sales to Denmark is aircraft, the value of which varies greatly from year to year. The large aircraft imports of 3.4 billion kroner ($466 million) in 1989, which accounted for one quarter of total U.S. sales that year, will at best approach 2 billion kroner ($318 million) in 1990, and probably remain at this level in 1991, based on planned deliveries under present contracts. The joint Scandinavian Airlines System (SAS) is the major buyer of U.S. aircraft (Boeing 767 and the MD 80 series), and as a general rule puts two of every seven aircraft procured under Danish registry. Prospects for new sales of U.S. aircraft appear bleak in the medium term due to the present difficult airline situation and uncertainties with regard to the effect of the gradual liberalization of EC aviation.

U.S. sales of other capital equipment in the first 9 months of 1990 were valued at 2.7 billion kroner ($429), of which computers and parts accounted for more than 40 percent. These imports show a slight upward trend, indicating that U.S. exporters are taking advantage of the improved U.S. competitive position and the increase in industrial investment in equipment. Projections are that these investments will increase about 5 percent in 1991.

The United States Remains Major Supplier of Coal to Denmark: Denmark imported almost 7.7 million tons of coal in the first 9 months of 1990, of which the United States supplied close to 30 percent. U.S. sales for 1990 are likely to stabilize at the 1989 level of 3 million tons. Other important suppliers are Colombia, the Soviet Union, Australia and Poland. There are speculations that the recent sharp increase in oil prices, which so far has not affected coal prices, may trigger a change in Danish energy policy, increasing coal consumption beyond its present annual level of 10 to 11 million tons.

Prospects for Other U.S. Sales to Denmark: Other important product groups in the very diversified U.S. sales to Denmark are raw materials and semimanufactures for Danish industries, chemicals, military equipment, technical and scientific instruments and parts, and a variety of processed goods, including consumer goods. Except for imports of military equipment, which are declining due to the political changes in Europe, other product groups show stable or increasing sales. The gradual deregulation of U.S. and COCOM export restrictions should assist increased U.S. sales of components, parts and equipment to Danish high-technology manufacturers, particularly in the telecommunications field, where interest is high in exporting to Central and Eastern Europe.

As a result of the internationalization of U.S. companies, the sales in Denmark of U.S. brand equipment manufactured outside the United States add a significant but unknown value to U.S. companies' penetration of the Danish market. One example is the automobile market, where Ford and GM vehicles account for close to one-third of approximately 5 billion kroner (about $800 million) in annual imports of automobiles. However, their products sold in Denmark are entirely manufactured in Europe. The value of U.S. components in these vehicles is not known. The possible reduction in marginal income taxes mentioned earlier may lead to a further increase in demand for consumer goods. A large proportion of such an increase will be directed towards foreign-produced goods.

Trade in Services Also Important: Although no statistics are available on the value of trade in services between Denmark and the United States, this trade plays a very important role in U.S.-Danish relations. Danish earnings from participation in liner shipping to and from the United States, particularly by the A.P. Moeller-owned Maersk Line, will probably approach 7 billion kroner ($1 billion) in 1990, accounting for more than half of total Danish liner earnings. Tourism is an important source of earnings for the United States, as more than 100,000 Danes visit the United States each year.

BEST PROSPECTS FOR U.S. EXPORTS

The best prospects for U.S. exports are the following: Telecommunications equipment and services, civil aircraft and parts, computers and peripherals, coal and coke, tourism, civil engineering and construction services, computer software, CAD/CAM/CAE/CIM equipment, avionics and ground support equipment.

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